

AR27



CONTINENTAL BANK  
OF CANADA

1979 INC ANNUAL REPORT



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## Highlights

	<b>For the ten months ended October 31, 1979</b>	<b>1979</b>	<b>1978</b>
	<b>Dollars</b>		<b>Dollars</b>
Total Assets	<b>3,725,154,000</b>		2,939,518,000
Growth in assets	<b>583,517,000</b>		403,034,000
Gross income	<b>259,248,000</b>		213,569,000
Cost of borrowed money	<b>198,878,000</b>		135,319,000
Net interest income	<b>60,370,000</b>		78,250,000
General and administrative expenses	<b>58,802,000</b>		50,914,000
Earnings applicable to common shares	<b>7,623,000</b>		17,559,000
Dividends paid on common shares	<b>13,242,000</b>		13,235,000
Earnings per share	<b>0.56</b>		1.29
Dividends paid per share	<b>0.97½</b>		0.97½

IAC Limited  
Incorporated under the laws of Canada  
February 7, 1925  
Head Office, 130 Adelaide Street West  
Toronto, Ontario M5H 3R2

Si vous désirez recevoir un exemplaire en français du rapport annuel de IAC, veuillez vous adresser au secrétaire, IAC Limitée  
Place Continentale  
130, rue Adelaide ouest  
Toronto, Ontario M5H 3R2





June 4, 1979  
IAC opened the  
Continental  
Bank of Canada



## Directors' Report to the Shareholders

To coordinate its year end with that of its new subsidiary, the Continental Bank of Canada, IAC Limited completed a ten-month financial period on October 31, 1979. In this period earnings were \$8,323,000 compared with \$18,288,000 in 1978. Earnings per common share were 56¢ compared with \$1.29 in 1978.

This level of earnings, which is not satisfactory to management or directors, can be attributed to three major causes: 1. In a period of just over two years, the Company steadily reduced its charges. One reason was to meet increased competition from domestic and foreign banks in the Company's traditional markets. Another was to allow the Company to enter new markets and reduce its dependence upon these recently vulnerable areas of business. Company rates are now generally competitive, and no further large reductions are required.

These new competitive rates have greatly stimulated growth in assets. Assets in the ten-month period increased by \$583 million or 18.6%. This brought total assets to \$3.7 billion, a new record. Moreover, much of this growth was in new types of business from which the Company had previously been excluded by its rate structure. For instance, a significant proportion of the new business is with major corporations and various levels of government in Canada.

Credit losses as a percentage of average receivables declined to .27%, well below the .40% average of the last 10 years.

2. The cost of borrowed funds has escalated quickly. The Bank of Canada rate rose 11 times between March, 1978 and October, 1979, from 8% to 14%. These rapid increases have severely squeezed the spread on the Company's traditional business, which has historically been conducted on a fixed rate basis.

3. The rapid escalation in interest rates has adversely affected the spreads on floating rate business by sharply narrowing the difference between the prime rate and our average cost of short term funds.

These were the most significant reasons behind the decline in earnings. Another was the continued weakness in the Canadian dollar against the U.S. dollar. In addition, general and administrative expenses increased 15.5% largely because of start-up costs for the Bank.

Current economic conditions have created widespread uncertainty about the future course of interest rates. Your directors therefore reduced the dividend paid on December 31, 1979 to 10¢ per common share, although retained earnings could have justified maintaining

the previous level. Dividends paid in the ten-month period were 97½¢ per common share, matching last year's payments over a similar period.

Some hopeful signs suggest that interest rates may be at, or near, their peak, and the directors will continue to review the dividend situation through 1980. There has been no major change in IAC's capital position. Your Company remains in a strong financial position with shareholders' equity at \$249 million on October 31.

As difficult as it has been, the past fiscal period should be viewed in light of the Company's future as a chartered bank. In 1975, when the decision to become a bank





was made, IAC was in a narrow segment of the financial market. Almost all assets were in a few specialized portfolios, offering high yields but low potential for growth. Competition was increasing sharply from banks, which had access to low-cost funds from their depositors. Yields from IAC's traditional lines of business were eroding beneath this pressure. Had the Company decided to retain its former status, the impact of rising money costs would have been far more severe.

June 4, 1979 marked the most important milestone in the Company's history as the Continental Bank opened for business. Eight full service Bank branches – now nine – began offering a complete range of deposit and lending services. The Continental Bank's 130 other offices became select service branches. All now accept term deposits, which will steadily lower the Company's average cost of funds.

Progress to date is encouraging. With the test phase over, the Bank can now aggressively sell its services. A more complete range of deposit and other services will be added to the select service branches. A more detailed review of the work involved in this enormous transformation appears later in this report.

No undertaking of this size could have been accomplished without a loyal and dedicated staff. Major change is invariably unsettling, but management is committed to help each member make the transition. Whenever possible, promotion will be from within. Becoming a bank has opened new avenues of opportunity for Company employees, who are being encouraged to further their career development.

Overall, management and directors have a firmly held belief that the conversion to banking offers the most ideal basis for expanding services beyond the Company's traditional lines of business, while benefiting from its skills in financial management. Clearly, this is a difficult course in these times of extraordinary fluctuation in interest rates. But your directors sincerely believe it to be in the best interests of the Company.

Reflecting the Company's commitment to add new banking skills to its officer group, the Directors appointed the following officers during the year:

C. F. Chasney, Vice President,  
Funding and Investments.

N. A. Gow, Vice President,  
Project Planning.

M. F. Harris, Vice President,  
Government and Corporate Finance.

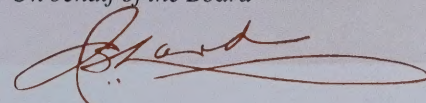
I. A. Henderson, Vice President,  
Planning.

A. L. Lathrop, Vice President,  
International.

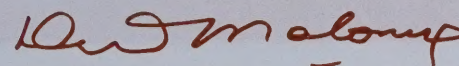
J. J. Smyth, Vice President, Marketing.

In conclusion, we wish to assure shareholders that, while the present level of earnings is not satisfactory, the conversion plans are sound and can be expected to reward our shareholders over the longer term.

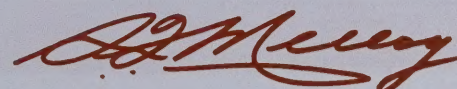
*On behalf of the Board*



*Chairman*



*Vice Chairman*



*President*

*January 3, 1980*

*Seated from left to right:*

*S. F. Melloy, D. W. Maloney, J. S. Land.*





## Birth of a Bank

For half a century IAC followed a road to growth that unfolded as it went. Weathering depression and war, the Company steadily expanded into new areas of business, often breaking trails that others would follow. By the end of the Sixties, IAC had evolved into a group of specialized financial intermediaries, each actively competing in its own specific field in a clearly segmented financial market. These areas of activity took in automobile financing, consumer loans, life and general insurance, leasing, capital equipment financing and special mortgages.

Then the financial business changed. Areas of the market – once so sharply defined – began to overlap. The 1967 revision of the Bank Act allowed the chartered banks to compete for business that had once been off-limits. Through aggressive promotion, Canada's banks began to exploit the benefits of a one-stop financial service. IAC's lending companies faced a new, yet well entrenched, field of competitors. While the Company's total earnings continued upward, market share dropped dramatically in such areas as consumer loans.

Acknowledging a threat to future growth, IAC researched the long-term implications. The conclusions were clear. Only by becoming a chartered bank could the Company make the best use of its strong capital base and 50 years of respected experience in financial services to Canadian companies and individuals. The decision to convert to a bank would launch a process of corporate transition unmatched in the history of Canadian business.

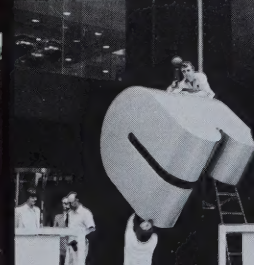
In 1975 the Company made its first application to the Federal Parliament for a bank charter, which it received on July 14, 1977. In preparation for the changeover, the individual companies in the IAC group were brought together under one management team. Those subsidiaries whose business could not be conducted as a bank were sold. Branch offices too small to be converted to banks were closed, and their business integrated into larger locations. New computer systems were designed and tested. Specialists with banking skills were hired. Intensive staff retraining began. Thousands of new bank forms were written, printed and distributed. Hundreds of new signs went into place. Additional security equipment was installed.

In all, eight full service branches were created in Halifax, Montreal, East Toronto, Downtown Toronto, Mississauga, Hamilton, Calgary and Vancouver. Another 130 branches were made ready to accept term deposits. All this was achieved while the Company continued normal day-to-day business – at a time when the nation's economic environment was also in a state of constant change.

The target date was met. On June 4, 1979 the Continental Bank of Canada opened its doors to business.

*After years of planning and preparation, IAC took a course of action unparalleled in the history of Canadian business and, on June 4, 1979, opened its doors as the Continental Bank of Canada.*







**W**hat kind of bank will the Continental become? Where will it fit in a field of well-established competition? Clearly, the greatest potential for growth lies in a broad base of business, one that can raise money from many sources and develop assets in a variety of markets. The first step was to build upon the existing bonds between IAC and medium-sized corporate customers. Yet, while a primary objective has been mid-sized business accounts, there has been significant growth in almost every commercial direction. A Continental Bank department has been created to service government and corporate finance sectors. The Bank is becoming established in the international arena, and is engaged in selective offshore lending.

For the individual customer, the Bank offers an attractive new way of doing business. Each customer is treated as a person, not as an account number. A personal banker, known as a Customer Account Representative, becomes the customer's contact with the Bank, providing information, assistance and advice. This personal service is available only at the Continental Bank.

As a newcomer to the banking business, the Company has also been able to start with the most up-to-date computer equipment. This has allowed a number of key innovations. Among them:

*The Performance Account.* This Continental Bank exclusive allows the customer to issue cheques while earning interest on the balance at the end of each day. Bonus interest is paid on the balance maintained throughout the month. This brings interest on the untouched portion close to that of a savings account.

*Capital Savings Account.* The customer earns interest on the balance at the end of each day. Shortly after this service was announced, Canada's major banks launched similar plans.

*Personal Credit Reserve.* Another service unique to the Continental Bank. Customers may apply for a personal line of credit to accompany their Performance Account or Regular Chequing Account. No charge is made for the line of credit; interest is calculated on the outstanding balance at the end of each day.

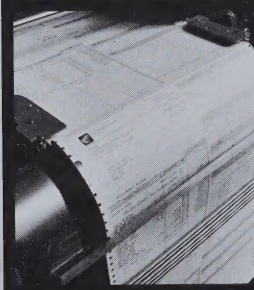
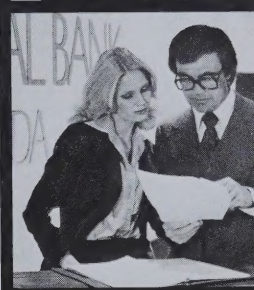
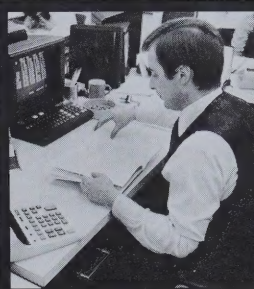
*Continental Action Loans.* One more new idea. Interest on personal loans is computed on a simple daily basis – a distinct advantage to customers who promptly repay their loans.

*Personal Banking Report.* This too is available only at the Continental Bank. The customer's entire banking activity appears each month on one clear statement. There's no need for separate passbooks or an assortment of records. At a glance, the Personal Banking Report gives customers an up-to-date status report of their banking.

The computer technology that made these innovations possible is also being put to work in the development of new kinds of commercial accounts. Later in 1980 a complete range of services – as innovative as those described above – will be made available to Continental's commercial customers.

*The Continental Bank is building upon IAC's established relations with mid-sized companies. New departments have been established to better accommodate government and corporate activity as well as international business. The Company also offers a unique range of services for personal banking.*







A good deal of ground has been broken since the opening of the Continental Bank. The early test period in the eight full service branches has yielded encouraging results. A plan to convert branches to full service banking is now under way, recognizing that the Bank must build not just for present market conditions, but to meet future needs as well.

In those years before the Bank began, the IAC companies could easily define their field of business. This is no longer the case. Branch managers must now live up to a new range of expectations from customers they have served for years – simply because they're now *bankers*.

Thus the need for retraining was a key consideration in beginning with eight strategically located full service branches. Each has now become a centre for on-the-job training. Staffed with senior divisional management personnel and bank-trained support staff, these branches, by the end of 1980, will be producing a steady flow of Continental bankers.

Where necessary, new bank-trained people are being hired to provide specialized skills. But the major thrust of the conversion program will offer the opportunity for all personnel to make the transition to full service bankers.

The conversion is a major undertaking, but not nearly as difficult as it would be to start a totally new organization. The Company's personnel have excellent skills which, strengthened by additional training, will bring an important new dimension to Canadian banking.

It should also be recognized that converting existing branches is considerably less costly and time-consuming than seeking out locations and building new premises.

Most encouraging of all is that the full service locations already in operation have given the Bank a functioning, nationwide framework, around which it is now building for the future.

*Eight full service branches were opened initially. Results over the test period were encouraging. Now a major retraining and re-building program is under way, preparing people and premises for the total conversion to a bank.*







**B**y June 4, 1979 many people had to know that the Continental Bank of Canada was in business. Months in advance, work began on a communications program that would:

Tell present and previous customers that the Company they had been dealing with was becoming a bank.

Inform prospective customers, including all those in the immediate neighborhood of every Bank branch, that a new institution would soon be seeking their business.

Let employees know what was happening, and how the changes would affect their future.

Advise certain third parties, such as employees of other banks and merchants, that cheques and other documents from the Continental Bank would be appearing.

Announce details of the Bank's opening and operating intentions to interested parties in the financial community.

The story of a major bank opening caught the imagination of Canada's press. More than 90 feature articles and broadcast interviews were run. This activity was supported by a multi-media advertising campaign, including an award-winning television commercial. As a result of this coordinated effort, the great majority of those who should know of the Bank's existence now know.

This clears the way for the second phase of the communications program, which promotes the services of the Bank. Again, there are many people to reach. The Company, first as IAC, now as a bank, has always conducted most of its business away from its premises. In addition, the Bank's financing plans are offered by many businesses to their customers. Communications must therefore be directed at a wide range of audiences. Each part of the program is designed to further the perception of the bank as being:

A safe place to deposit money;

Competently staffed;

Well established, with a long and successful financial tradition;

Aggressive;

Innovative;

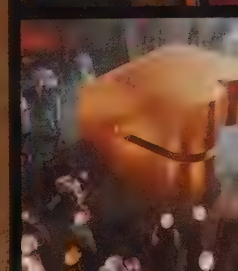
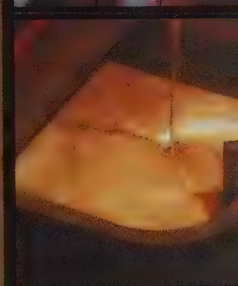
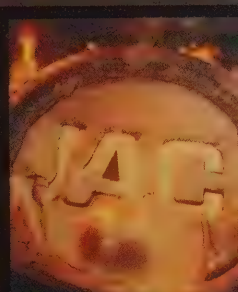
Concerned with – and sensitive to – its customers' best interests.

Ongoing work in communications will promise our customers the benefits above. Ongoing work in every other area will ensure that they receive them.

*News of IAC's transition to a bank had to reach a wide range of audiences by June 4, 1979. More than 90 feature stories and broadcast interviews were run, and a multi-media advertising program emphasized the Bank's foundations in IAC's 50 years of experience.*

*The medallion shown on the opposite page is the symbol for the Continental Bank's Performance Account. The series of film clips were taken from the Bank's introductory television commercial.*







## Commentary on Financial Operations

Since the Continental Bank of Canada began operating, all eligible new business has been transacted in the name of the Bank. To conform with general bank reporting, IAC changed its year end from December 31 to October 31. The financial period under review, therefore, is the first ten months in 1979.

Financial statements for the Bank have been prepared in accordance with the Bank Act, and there is some commentary on Bank operations at the end of this section. But since most business in 1979 was conducted in the name of IAC, the consolidated picture best reflects what transpired during this financial period.

### IAC Limited Summary

During the ten months of operations in 1979, assets continued to grow under difficult economic conditions. Interest rates continued to increase. In January, the prime rate was 11.5%; by the end of October it was 15%. In addition, short term money market rates rose even more rapidly throughout the year.

As a result, the growth in assets did not offset the decline in net interest earnings. Company earnings were \$8.3 million, compared with \$18.3 million for the same period last year. Earnings applicable to common shares declined to \$7.62 million, down from \$17.56 million for the same period of 1978. Earnings per common share over the ten-month period were \$.56, compared with \$1.29 in 1978.

### Asset Growth and Mix

At October 31, 1979, assets were \$3.7 billion, up from \$3.1 billion on December 31, 1978. This represented 19% growth in ten months.

The asset mix has been steadily changing, reflecting a shift in emphasis that began several years before plans to convert to a bank were under way. This change in direction can be seen by categorizing loans

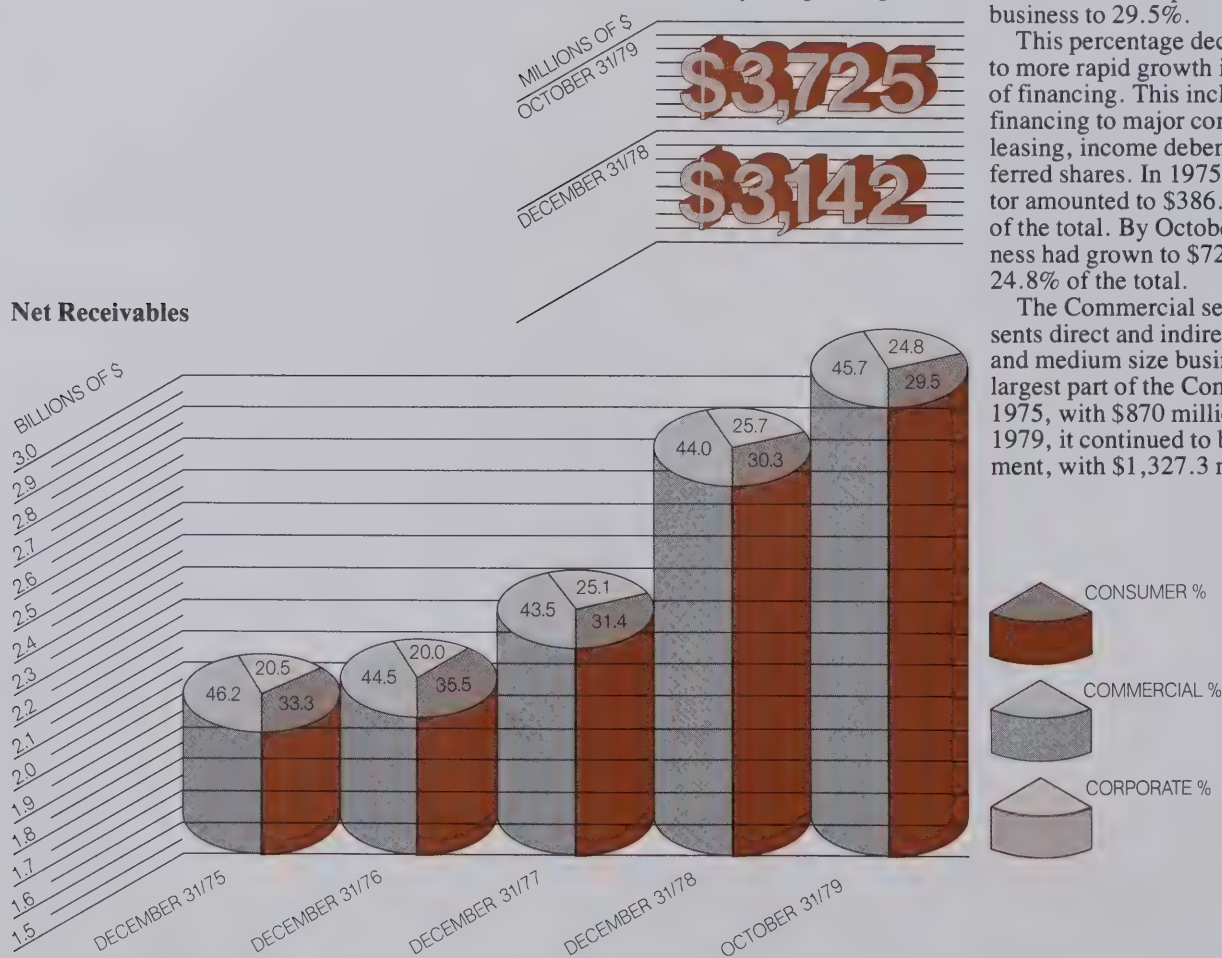
or receivables into three market segments: Consumer, Corporate and Commercial.

In 1975, Consumer financing of \$626.8 million represented 33.3% of the Company's business. This was made up of direct and indirect financing to individuals, primarily for durable goods and residential mortgages. By October 1979, Consumer financing had grown to \$856.7 million but declined as a percentage of total business to 29.5%.

This percentage decline was largely due to more rapid growth in the Corporate area of financing. This includes direct term financing to major corporations through leasing, income debentures and term preferred shares. In 1975, the Corporate sector amounted to \$386.7 million or 20.5% of the total. By October 1979, this business had grown to \$721.4 million or 24.8% of the total.

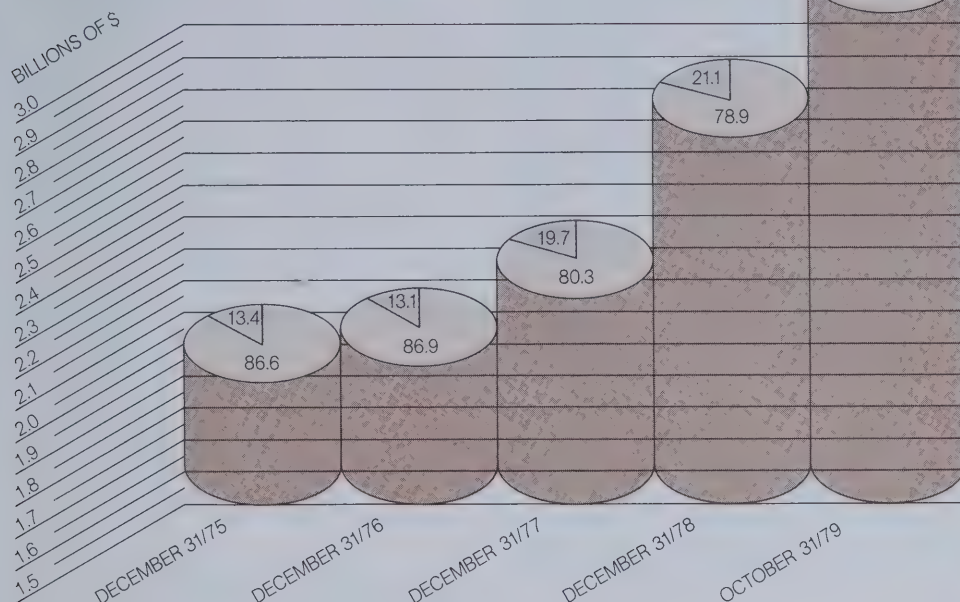
The Commercial segment, which represents direct and indirect financing to small and medium size business, comprised the largest part of the Company's market in 1975, with \$870 million or 46.2%. In 1979, it continued to be the largest segment, with \$1,327.3 million or 45.7%.

### Net Receivables

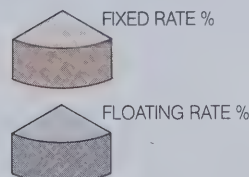




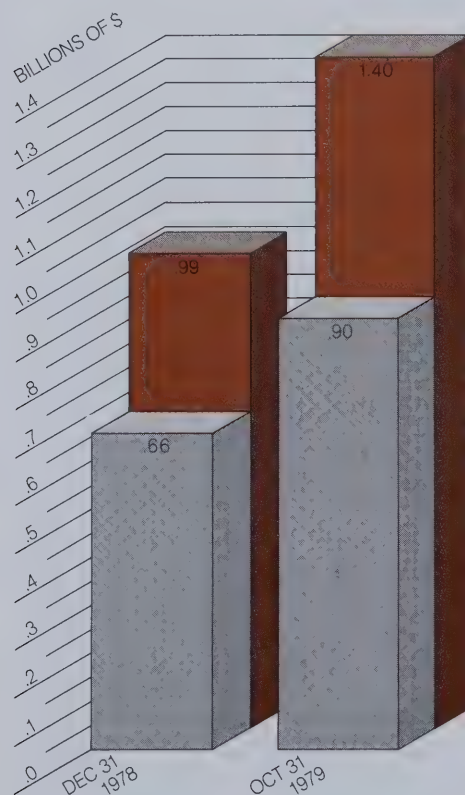
### Fixed Rate Assets vs. Floating Rate Assets



Categorizing assets by fixed rate and floating rate helps illustrate the effect of interest rate changes on portfolio yields. Regardless of general interest rate changes, fixed rate assets continue to yield the same until they mature and are replaced at new prevailing rates. Floating rate assets on the other hand respond to interest rate fluctuations, so yields on that portion of the portfolio reflect current interest rate levels. In 1975, the Company had 86.6% of its portfolio in fixed rate assets. This is typical of a sales finance portfolio. But, with the Company's move into banking, the proportion of fixed rate assets had declined to 81% by October 1979. The mix, however, is still more typical of a sales finance company than a bank. The Company intends to continue altering the mix to a better balance of fixed and floating rate assets. This will provide greater protection against interest rate fluctuations in the future.

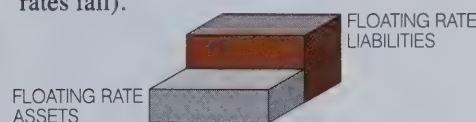


### Floating Rate Assets vs. Floating Rate Liabilities

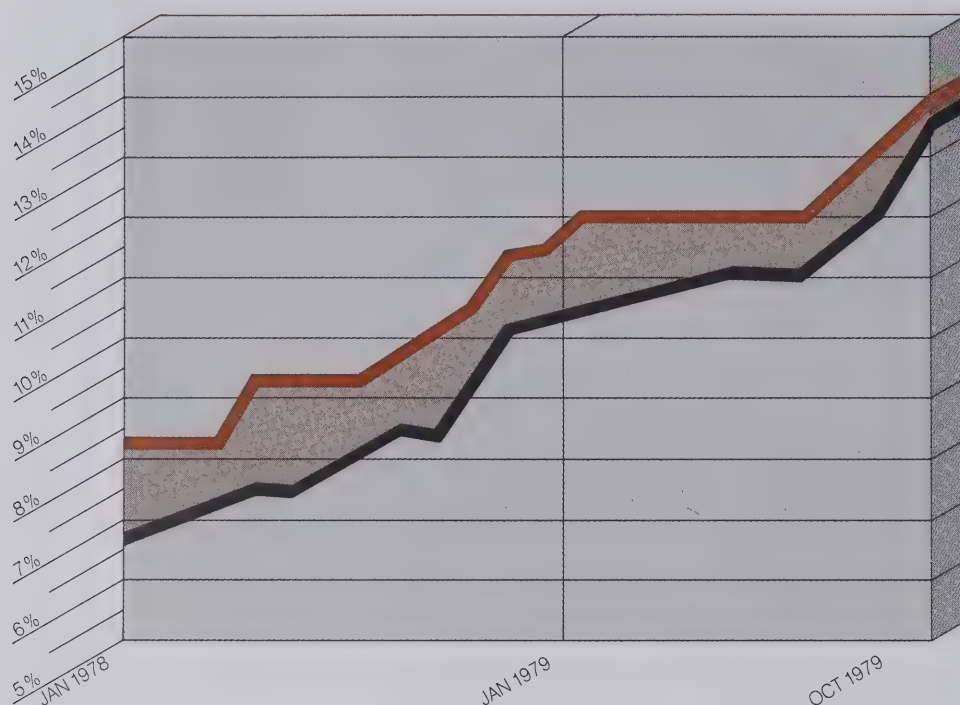


The mix of fixed and floating rate assets is just one aspect of earnings sensitivity to interest rate fluctuations. The other consideration is the way those assets are funded. If fixed rate assets could be perfectly matched with fixed rate liabilities, spreads would be locked in and earnings would be protected from interest rate fluctuations. In practice, however, it is virtually impossible to achieve a perfect match, particularly in periods of volatile rate swings. As a bank, the Company's ability to match assets and liabilities will improve.

During 1979, the Company's reliance on the short term markets led to an increase in floating rate liabilities of \$410 million. Floating rate assets increased by \$240 million in the same period. As a result, by October 31, floating rate liabilities exceeded floating rate assets by \$500 million, an imbalance that is \$170 million greater than it was in 1978. Such an imbalance has a detrimental effect on spreads or net interest earnings in times of rising interest rates (and a positive effect when rates fall).





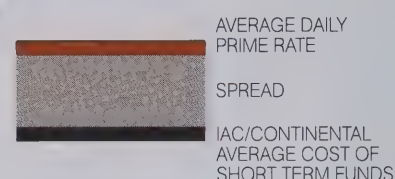


### Interest Rates

The previous section explains the imbalance in floating rate assets and floating rate liabilities. But to clearly understand net interest earnings performance it is necessary to examine exactly what happened to interest rates in 1978 and the first ten months of 1979.

In January 1978, the prime rate was 8.25%. During that year it rose 3.25% to 11.5% by December. In 1979, the prime rate continued to climb, increasing 3.5% to 15% by the end of October.

Another factor that adversely affected net interest earnings in 1979 was the relationship between the prime rate and the cost of short term funds. Traditionally, there has been a 1% spread between 90-day bank money market funds and the prime rate. But in 1979, these spreads narrowed considerably, compounding the squeeze on net interest earnings.



### Profitability

Because of the change in the Company year end, the period under review covers only the first ten months of 1979. A more meaningful comparison between this period and the full twelve months of 1978 can be made if the time element is removed and income and expense items are expressed as a percentage of average assets. In short, how much was earned and spent for every \$100 of assets in place?

Average assets, net of unearned income, for the ten months of 1979 were \$3,001 million, an increase of \$527 million or 21% over average assets of \$2,474 million for the twelve months of 1978.

Net interest earnings include income from receivables and investments, adjusted or grossed up for tax exempt securities, less provision for doubtful receivables and the cost of borrowed money. Expressed as

1978		1979
4.23%	NET INTEREST EARNINGS TO AVERAGE ASSETS	3.02%
2.48%	ADMINISTRATIVE EXPENSES TO AVERAGE ASSETS	2.36%
.84%	INCOME TAX	.33%
.03%	DIVIDENDS ON PREFERRED SHARES TO AVERAGE ASSETS	.03%
.88%	EARNINGS TO AVERAGE ASSETS	.30%

a percentage of average assets, net interest earnings were \$3.02 for every \$100 of assets. This is a significant drop from \$4.23 for the twelve months of 1978.

There are three major reasons for the decline. The first two are the steady increase in interest rates throughout 1979 and erosion of the spread between short term funds and the prime rate. The third reason is the continued reduction in interest rate charges on traditional lending services and the introduction of new lending services at bank competitive rates, as well as low yielding liquidity assets for reserve purposes. Presently, rates on the existing portfolio are competitive and further reductions are not anticipated.

Administrative expenses were \$58.8 million for the ten months of 1979, or \$2.36 for every \$100 of assets. Considering that extra costs were incurred in 1979 for bank conversion, this figure compares favourably with the \$2.48 expended in 1978. Some of the additional expense of conversion was offset by consolidating branch operations. Percentage growth in administrative expenses was less than asset growth in 1979.

Earnings after taxes and dividends on preferred shares were \$7.6 million for the ten months in 1979. Expressed in terms of assets, the after tax return was \$.30, down from \$.88 earned in 1978.



## Continental Bank of Canada

### Summary

The first five months of the Bank's operations indicate a very successful transition. New and traditional financing services to new and established clientele resulted in asset growth in excess of \$1 billion.

This was a difficult period for the launch of a new bank. As explained in the IAC section of this report, spreads narrowed considerably, and were negative for some financial services. Balance of revenue after tax was \$260,000.

### Assets

Liquid assets, which include cash, securities issued or guaranteed by Canada, day, call and short loans to investment dealers and brokers fully secured and other short term investments, were \$272 million or 27.3% of total deposits on October 31, 1979. This provided a sound liquidity position.

Other loans of \$858 million represent new loans booked since June 4, indicating strong marketplace acceptance of the Continental Bank.

### Liabilities

Deposit liabilities grew by \$996 million during the period. A large percentage of funds was raised in the money markets by issuing bank certificates of deposit and bearer deposit notes. More than \$50 million in deposits from Commercial Accounts, Chequing Accounts, Performance Accounts, Capital Savings Accounts and Term Deposit Receipts were raised through the Company's branches.

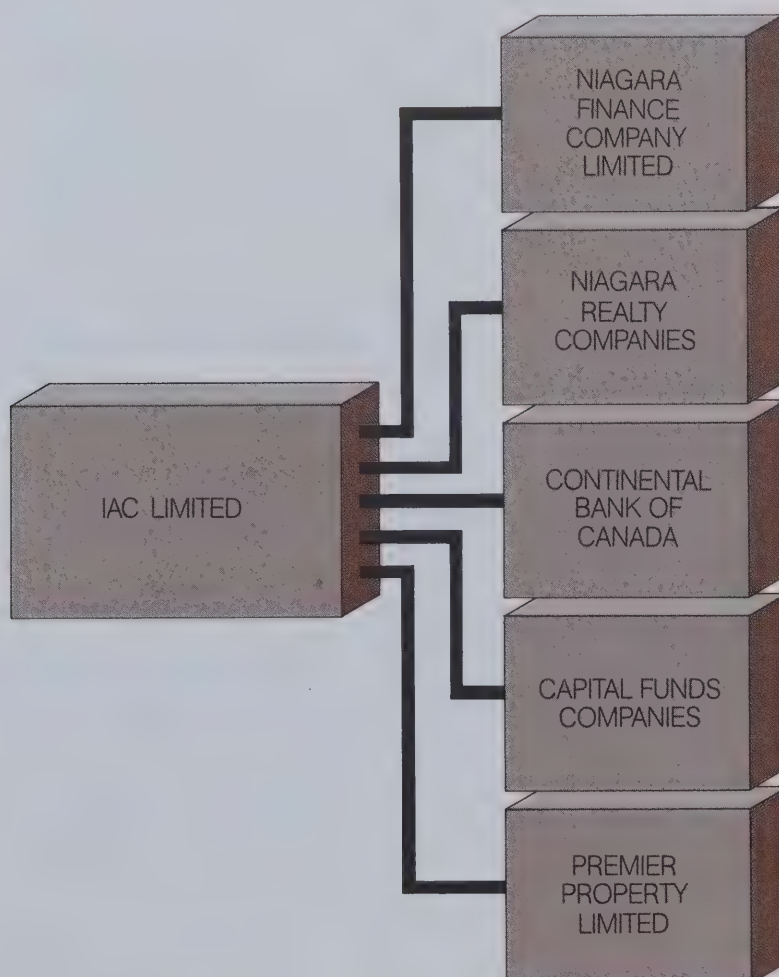
### Capital Funds

Total Capital Funds amounted to more than \$100 million on October 31, 1979. The Continental Bank is in an extremely strong capital position to expand its asset base in the future.

### Revenue and Expenses

Total revenues of \$27,821,000 exceeded the cost of deposits of \$21,421,000 by \$6,400,000. Total non-interest expenses were \$7,341,000. A tax recovery to be applied to reduce future years' income subject to tax produced a balance of revenue after tax of \$260,000. A more complete explanation appears in Note 4 to the financial statements.

## Corporate Organization





# Consolidated Statement of Earnings

For the ten months ended  
October 31, 1979

		1979 \$000's	1978 \$000's
<b>Gross Income</b> (note 4)		<b>259,248</b>	213,569
<b>Expenditure</b>			
Cost of borrowed money —			
Short-term debt	97,568		49,067
Other term debt	101,310		86,252
	198,878		135,319
General and administrative	58,802	257,680	50,914
		1,568	27,336
<b>Provision for (Recovery of) Income Taxes</b>			
Current	(1,485)		3,257
Deferred	(5,270)	(6,755)	5,791
			9,048
<b>Earnings for the Period</b>		<b>8,323</b>	18,288

# Consolidated Statement of Retained Earnings

For the ten months ended  
October 31, 1979

	1979 \$000's	1978 \$000's
Earnings for the period	8,323	18,288
Dividends on preferred shares	700	729
<b>Earnings Applicable to Common Shares</b>	<b>7,623</b>	17,559
Dividends on common shares at \$0.975 per share	13,242	13,235
Earnings retained in the business	(5,619)	4,324
Gain on preferred shares purchased for cancellation	113	64
Increase (decrease) in retained earnings for the period	(5,506)	4,388
Retained earnings at beginning of period	187,382	183,228
Retained earnings at end of period (note 5)	181,876	187,616
<b>Common Stock Earnings per Share —</b>		
Calculated on daily average of common shares outstanding —		
13,582,322 (1978 — 13,573,893)	\$0.56	\$1.29
Fully diluted	\$0.56	\$1.25



# Consolidated Balance Sheet

As at October 31, 1979

		1979 \$000's	1978 \$000's
<b>Assets</b>	<b>Cash and Short-Term Deposits</b>	<b>53,211</b>	17,197
	<b>Marketable Securities</b> — at cost, plus accrued income (market value — \$94,743,000; 1978 — \$10,305,000)	<b>95,474</b>	10,392
	<b>Day and Call Loans to Investment Dealers and Brokers, Secured</b>	<b>132,398</b>	—
	<b>Receivables</b>		
	Sales financing (note 6)	1,445,949	1,243,885
	Personal loans	145,683	179,831
	Residential mortgages	386,563	298,007
	Commercial loans	514,833	405,579
	Leasing	846,495	713,954
	Other	19,723	18,374
		<b>3,359,246</b>	2,859,630
	Allowance for doubtful receivables	<b>26,164</b>	25,275
		<b>3,333,082</b>	2,834,355
	<b>Investments in other Companies</b> — at cost	<b>11,851</b>	11,851
	<b>Other Assets and Deferred Charges</b>		
	Customer liability under letters of credit, as per contra	428	—
	Cash committed for preferred stock requirement	13	140
	Income taxes recoverable	5,143	526
	Leasehold improvements, prepaid expenses and deferred acquisition costs	15,053	6,081
	Unamortized debt discount and expense	28,659	16,207
	Unrealized foreign exchange losses	43,149	38,857
	Premises and equipment — at cost, less accumulated depreciation of \$6,621,000 (1978 — \$6,402,000)	6,693	3,912
		<b>99,138</b>	65,723
		<b>3,725,154</b>	2,939,518
<b>Liabilities</b>	<b>Secured Notes</b> (Schedule A and note 9)	<b>1,705,732</b>	1,882,568
	<b>Deposits</b>	<b>865,684</b>	—
	<b>Debentures</b> (Schedule B and note 9)	<b>118,417</b>	127,392
	<b>Unsecured Notes</b> (note 8)	<b>28,755</b>	29,562
		<b>2,718,588</b>	2,039,522
	<b>Payables</b>		
	Accounts payable and accrued liabilities	179,857	128,442
	Income taxes	41	1,000
	Letters of credit	428	—
		<b>180,326</b>	129,442
	<b>Unearned Income</b> (note 10)	<b>408,472</b>	344,065
	<b>Deferred Income Taxes</b> (note 11)	<b>168,806</b>	171,439
		<b>3,476,192</b>	2,684,468
<b>Shareholders' Equity</b>	<b>Capital Stock</b> (Schedule C)		
	Preferred shares	15,173	15,977
	Common shares (note 12)	51,913	51,457
		67,086	67,434
	<b>Retained Earnings</b> (note 5)	<b>181,876</b>	187,616
		<b>248,962</b>	255,050
		<b>3,725,154</b>	2,939,518



# Consolidated Statement of Changes in Financial Position

For the ten months ended  
October 31, 1979

	1979 \$000's	1978 \$000's
<b>Sources of Funds</b>		
Operations —		
Earnings for the period	8,323	18,288
Amortization of debt discount and expense	2,283	1,860
Amortization and depreciation of fixed assets	1,440	1,290
Provision for deferred income taxes	(5,270)	5,791
	<u>6,776</u>	<u>27,229</u>
Borrowings —		
Deposits — issues, less redemptions	842,784	—
Secured notes — issues, less redemptions	(377,457)	314,939
Debentures — issues, less redemptions	(8,438)	(5,491)
Unsecured notes — issues, less redemptions	(752)	23,980
	<u>456,137</u>	<u>333,428</u>
Other —		
Net increase in payables	82,890	22,186
	<u>545,803</u>	<u>382,843</u>
<b>Uses of Funds</b>		
Increase (decrease) in operating assets —		
Marketable securities	86,156	(14,430)
Day and call loans to investment dealers and brokers, secured	132,398	—
Receivables —		
Sales financing	156,554	193,084
Personal loans	(25,849)	1,745
Residential mortgages	67,189	39,071
Commercial loans	76,677	128,224
Leasing	74,833	3,201
	<u>349,404</u>	<u>365,325</u>
Increase in unearned income	(44,938)	(12,982)
Decrease (increase) in allowance for doubtful receivables	(2,641)	9
	<u>301,825</u>	<u>352,352</u>
	<u>520,379</u>	<u>337,922</u>
Capital Stock —		
Common shares — proceeds of issue	(456)	(6)
Preferred shares — cost of redemptions	535	227
	<u>79</u>	<u>221</u>
Investments in other companies	—	2,200
Dividends on common and preferred shares	13,942	13,964
Other —		
Net increase in other assets including other receivables	16,749	18,351
	<u>551,149</u>	<u>372,658</u>
Increase (decrease) in cash and short-term deposits	(5,346)	10,185
	<u>545,803</u>	<u>382,843</u>



# Notes to Consolidated Financial Statements

For the ten months ended  
October 31, 1979

## 1) Change in fiscal year

The Company has changed its fiscal year end from December 31 to October 31. Accordingly, the consolidated statements of earnings, retained earnings and changes in financial position cover the ten months ended October 31, 1979 with comparative figures for the corresponding period in 1978.

## 2) Restriction of activities

The Continental Bank of Canada was incorporated by an Act of Parliament on July 14, 1977 as a subsidiary of IAC Limited. On June 15, 1978 the Bank obtained approval to commence business and commenced banking operations on June 4, 1979. The Act incorporating the Bank restricts the activities of IAC Limited and its subsidiaries other than the Bank, to those which are not considered to be eligible banking activities. Pursuant to conditions set out in its incorporating statute, the Bank and IAC are required to amalgamate on or before July 14, 1987.

## 3) Significant accounting policies

### a) Principles of consolidation

The statements consolidate the accounts of the Company and its subsidiaries. The Bank Act and the regulations thereunder prescribed by the Minister of Finance stipulate the format of the financial statements and the significant accounting policies to be followed for the Continental Bank of Canada, a subsidiary of the Company. For purposes of consolidation the financial statements of the Bank have been restated to conform with generally accepted accounting principles.

### b) Recognition of revenue

Precomputed charges on sales financing

retail receivables for terms of less than forty-eight months and on personal loan receivables are taken into income using the sum-of-the-digits method on an account by account basis. Because this method does not maintain the original yield over longer terms, on sales financing retail contracts written for terms in excess of forty-eight months, unearned income is taken into earnings on the actuarial yield basis.

Discount on residential mortgages purchased is brought into income over the remaining term of the mortgage using the actuarial yield method.

Leasing transactions are reported in accordance with the financing method of accounting. The excess of aggregate rentals over the cost of the leased asset is recorded as unearned income at the time of the transaction. Income is taken up over the term of the lease pro rata to the declining balance of the investment. Contractual disposal proceeds negotiated at the inception of the lease are included in unearned income and taken up as described above. Gains arising from residual values of leased assets are reflected in earnings only when realized.

### c) Allowance for doubtful receivables

For residential mortgage receivables, the allowance is set up as a percentage of such receivables. For all other receivables such allowance is established by evaluating individual accounts.

### d) Translation of foreign currencies

Unhedged assets and liabilities are translated to Canadian funds at current exchange rates. Foreign currency borrowings which are covered by forward exchange contracts are recorded at exchange rates

established under the terms of such contracts. Exchange gains and losses on current assets and liabilities are considered to be realized and are reflected in the statement of earnings for the current fiscal year. Net unrealized exchange losses or gains resulting from the difference between the current exchange rate and the exchange rate at the date the proceeds of unhedged borrowings were received or the date of purchase of unhedged assets are deferred and carried in "Unrealized foreign exchange losses" or "Unrealized foreign exchange gains" respectively, in the balance sheet.

### e) Amortization of debt discount and expense

Debt discount and expense is amortized over the term of the related debt instrument. If the debt is prepayable or exchangeable at the holder's option, the amortization is calculated to the first optional maturity date. When a debt obligation is redeemed prior to maturity, the related unamortized charges are written off at the time of redemption.

### f) Methods of depreciation

Buildings are depreciated on a straight-line basis at the rate of 2.5% per annum. All other assets are depreciated at the maximum rates allowed by the regulations of the Canadian Income Tax Act for claiming capital cost allowances.

Leasehold improvements are amortized over the term of the respective leases.

### g) Amortization of acquisition costs

Acquisition costs for certain of the sales financing retail receivables are deferred and amortized over the term of the contract using the sum-of-the-digits method.

	1979 \$000's	1978 \$000's	Increase (Decrease) \$000's	%
<b>4) Gross income</b>				
Sales financing	135,380	109,792	25,588	23.3
Personal loans	17,705	21,283	(3,578)	(16.8)
Residential mortgages	35,579	30,195	5,384	17.8
Commercial loans	35,763	23,498	12,265	52.2
Leasing	44,122	39,419	4,703	11.9
	268,549	224,187	44,362	19.8
Provision for doubtful receivables	(9,577)	(9,838)	261	(2.7)
Acquisition costs	(6,142)	(2,772)	(3,370)	121.5
	252,830	211,577	41,253	19.8
Investment income	6,390	1,992	4,398	220.8
Other income	28	—	28	—
	259,248	213,569	45,679	21.4

## 5) Retained earnings

As at October 31, 1979, an amount of \$9,827,000, equal to the par value of preferred shares purchased for cancellation, had been set aside in the accounts out of retained earnings (1978 — \$9,023,000). Included in retained earnings at October 31, 1979 is an amount of \$245,000 representing an appropriation for losses made by the Continental Bank of Canada from its balance of revenue after recovery of income taxes.

## 6) Sales financing receivables

Sales financing receivables comprise:

	1979 \$000's	1978 \$000's
Wholesale receivables	436,554	366,105
Retail receivables	1,009,395	877,780
	1,445,949	1,243,885



# Notes to Consolidated Financial Statements

For the ten months ended  
October 31, 1979

## 7) Maturities of gross receivables and borrowings

(In millions of dollars)

	1 year	2 years	3 years	4 years	5 years	6-10 years	Over 10 years	Total
<b>Receivables —</b>								
Sales financing	900.8	320.2	164.9	45.0	10.9	4.2	—	1,446.0
Personal loans	70.5	47.6	20.9	5.5	1.1	—	—	145.6
Residential mortgages	36.1	47.6	67.9	95.1	114.3	11.4	14.2	386.6
Commercial loans	38.7	25.1	41.1	107.4	97.2	176.8	28.5	514.8
Leasing	138.3	127.1	110.4	85.7	71.7	208.0	105.3	846.5
Other receivables	19.7	—	—	—	—	—	—	19.7
	1,204.1	567.6	405.2	338.7	295.2	400.4	148.0	3,359.2
<b>Total Borrowings*</b> — excluding deposits	667.4	105.8	103.2	281.8	222.1	348.4	124.2	1,852.9
<b>Excess of receivables</b>	536.7	461.8	302.0	56.9	73.1	52.0	23.8	1,506.3
Less: Deposits net of "cash equivalents"	584.2	—	—	—	.4	—	—	584.6
	(47.5)	461.8	302.0	56.9	72.7	52.0	23.8	921.7

All receivables have been allocated on the basis of contractual terms.

\*Allocation not adjusted for sinking fund, mandatory redemption and purchase fund requirements (see note 9).

"Cash equivalents" comprise cash and short-term deposits, marketable securities and day and call loans to investment dealers and brokers.

## 8) Unsecured Notes

Unsecured notes comprise:

Parent company —

Short term notes

8% term note for U.S. \$2,654,000 (1978 — U.S. \$3,062,000) repayable in equal semi-annual instalments until 1986

Niagara Finance Company Limited —

6% term note for U.S. \$511,000 (1978 — U.S. \$852,000) repayable in equal semi-annual instalments until 1981

1979

\$000's \$000's

25,000 25,000

3,148 3,569

607 993

3,755 4,562

28,755 29,562

## 9) Sinking Fund, Mandatory Redemption and Purchase Fund Requirements

The sinking fund and mandatory redemption requirements for the five years ending October 31, 1980 to 1984 are as follows:

	\$000's
1980	4,829
1981	6,528
1982	9,991
1983	4,100
1984	13,394

Certain issues have purchase fund requirements which are non-cumulative and under which the IAC companies are required to redeem only debt instruments offered to them subject to limitations as to price and aggregate annual amounts. It is not possible to predict the amounts that will be offered by holders. The maximum purchase fund requirements for the years ending October 31 are as follows:

(In millions of dollars)  
Years ending October 31,

1980	14.9
1981	12.5
1982	11.0
1983	7.7
1984	6.7
1985-1989	27.9
after 1989	16.8

## 10) Unearned income

Unearned income comprises:

Unearned service charges relating to sales financing receivables

Unearned service charges relating to personal loans

Deferred income relating to residential mortgages

Deferred income relating to commercial loans

Unearned income relating to leasing receivables

1979

\$000's \$000's

140,394 120,551

19,801 26,007

2,400 2,617

182 315

245,695 194,575

408,472 344,065



# Notes to Consolidated Financial Statements

For the ten months ended  
October 31, 1979

## 11) Deferred Income Taxes

Deferred income taxes arise from timing differences relating to the treatment for income tax purposes of income and expenses associated with the following:

Commercial loans	1979 \$000's	1978 \$000's
Residential mortgage receivables	(1,675)	183
Unamortized debt discount and expense	1,154	1,088
Premises and equipment	658	1,997
Leasing receivables	181	168
Tax loss carry forward	169,689	168,003
	(1,201)	—
	<u>168,806</u>	<u>171,439</u>

## 12) Common Shares

1,070,791 common shares are reserved for conversion rights exercisable until July 14, 1984 at 46 shares (equivalent to \$21.74 per share) for each \$1,000 of principal of the 1974 9½% convertible subordinated debentures.

## 13) Commitments Under Leases

The Companies have leases on office premises rented for their business, requiring rental payments as follows:

Years	Approximate annual rentals (Dollars)
1980	4,531,000
1981	4,290,000
1982	4,130,000
1983	3,961,000
1984	3,067,000
The aggregate rentals for 1985 and thereafter \$11,268,000.	

## 14) Remuneration of Directors and Officers

	1979 Dollars	1978 Dollars
Aggregate remuneration of the IAC Limited directors as directors of:		
IAC Limited	90,993	99,972
Continental Bank of Canada	39,750	—
Niagara Finance Company Limited	14,345	11,371
	<u>145,088</u>	<u>111,343</u>
Number of directors of IAC Limited	<u>24</u>	<u>25</u>
Aggregate remuneration of the officers of IAC Limited and Continental Bank of Canada as officers thereof	<u>1,577,842</u>	<u>1,318,761</u>
Aggregate remuneration of the IAC Limited officers as directors of Niagara Finance Company Limited	<u>5,872</u>	<u>5,435</u>
Number of IAC Limited officers	<u>29</u>	<u>25</u>
Number of IAC Limited officers who were also directors	<u>4</u>	<u>4</u>

## 16) Guarantee

Until the amalgamation of the Company and the Continental Bank of Canada, the Company has guaranteed the indebtedness of the Bank as to principal, interest and redemption premium, if any. Such indebtedness amounted to \$1,097,123,000 as at October 31, 1979.

## 17) Contingent Liabilities

IAC and some of its subsidiaries are parties to certain litigation incidental to the kind of business conducted. In the opinion of management, the ultimate liability, if any, will not materially affect the Company's consolidated financial position or results of operations.

## 18) Subsequent events

- On November 15, 1979, IAC Limited issued \$30 million 11¾% secured notes maturing on November 15, 1999.
- Holders of Series "38" U.S. term notes have the right to prepayment on June 1,

## 15) Pension Fund

The Companies have a pension plan covering all permanent employees age 27 and over with more than one year of service. The pension benefits are based on the highest average remuneration received over any period of five consecutive years. The policy is to fund pension costs as accrued and based on actuarial valuations done every three years. As at December 31, 1977, the date of the last actuarial valuation, the past service liability was fully funded.

1980 or 1985. The first option expired December 1, 1979 and holders of U.S. \$3,300,000 par value elected to exercise their right. At the time of payment, June 1, 1980, using the exchange rate prevailing at the date of the balance sheet, the realized foreign exchange loss would amount to \$380,000.

c) Between November 1, 1979 and December 17, 1979 the Companies issued debt instruments in the amount of \$65,950,000 for terms from eighteen to thirty-six months at interest rates ranging from 13% to 13¾%.



# Consolidated Details of Secured Notes

As at October 31, 1979  
Schedule A

	Year of issue	Series	Rate %	Maturity date	Par value U.S. \$000's	1979 \$000's	1978 \$000's
<b>Secured short-term notes</b>						<b>485,426</b>	<b>750,431</b>
<b>Secured term notes</b>							
Payable in Canadian funds —	1959	"T"	5 $\frac{3}{4}$	April 1, 1979		—	6,000
Parent company	1959	"V"	6 $\frac{1}{2}$	December 1, 1979		5,000	5,000
	1960	"W"	6	August 15, 1980		7,500	7,500
	1961	"X"	5 $\frac{3}{4}$	November 15, 1981		8,500	8,500
	1962	"Y"	5 $\frac{2}{5}$	July 2, 1982		10,000	10,000
	1964	"28"	5 $\frac{3}{4}$	September 15, 1984		15,000	15,000
	1965	"31"	5 $\frac{3}{4}$	March 1, 1985		12,500	12,500
	1965	"33"	6	December 1, 1985		5,000	5,000
	1966	"34"	6 $\frac{1}{2}$	February 1, 1986		6,000	6,000
	1969	"37"*	8 $\frac{1}{4}$	May 1, 1979		—	200
	1969	"37"*	8 $\frac{3}{4}$	May 1, 1989		1,200	1,200
	1972	"39"*	8 $\frac{3}{4}$	September 1, 1991		23,468	25,193
	1976	—	9 $\frac{1}{2}$	May 15, 1981		25,000	25,000
	1976	— *	10 $\frac{1}{4}$	July 30, 1983		99,779	100,000
	1977	—	9	March 1, 1984		100,000	100,000
	1978	—	9 $\frac{3}{8}$	June 5, 1985		125,000	125,000
						<b>443,947</b>	<b>452,093</b>
Niagara Finance Company Limited	1964	"1"	5 $\frac{3}{4}$	April 15, 1984		10,000	10,000
	1964	"2"	5 $\frac{3}{4}$	May 1, 1985		10,000	10,000
	1965	"3"	5 $\frac{3}{4}$	May 1, 1985		10,000	10,000
	1966	"4"	7 $\frac{1}{2}$	December 1, 1986		5,000	5,000
	1968	"5"	8 $\frac{1}{4}$	May 1, 1988		7,500	7,500
						<b>42,500</b>	<b>42,500</b>
Niagara Realty of Canada Limited	1970	"A" *	9 $\frac{3}{4}$	December 15, 1990		4,610	4,610
	1971	"B" *	7 $\frac{7}{8}$	December 15, 1986		725	17,464
	1972	"C" *	8 $\frac{1}{4}$	August 15, 1982		12,458	12,729
	1973	"D" *	7 $\frac{7}{8}$	May 15, 1988		16,849	17,628
	1974	"E" *	9	March 1, 1994		21,933	23,460
	1974	"F" *	10 $\frac{1}{4}$	June 18, 1981		9,306	9,834
	1974	"F" **	10 $\frac{3}{8}$	December 18, 1984		11,109	12,005
	1977	"G" *	9 $\frac{1}{2}$	January 30, 1984		48,509	49,397
	1978	"H"	9 $\frac{1}{2}$	May 2, 1983		75,000	75,000
	1979	"I"	##	May 1, 1985		25,000	—
						<b>225,499</b>	<b>222,127</b>
Payable in U.S. funds —	1962	"Z"	5 $\frac{1}{4}$	October 1, 1982	10,000	11,860	11,655
Parent company	1963	"27"	5 $\frac{1}{4}$	April 1, 1988	10,000	11,860	11,655
	1964	"29"	5	October 1, 1984	10,000	11,860	11,655
	1965	"30"	5	February 15, 1985	15,000	17,790	17,483
	1965	"32"	5 $\frac{1}{2}$	October 1, 1987	20,000	23,720	23,310
	1966	"35"	5 $\frac{3}{4}$	February 1, 1986	12,825	15,210	14,948
	1968	"36"*	7 $\frac{3}{4}$	October 15, 1986	9,050	10,733	11,422
	1969	"38"*	9 $\frac{1}{2}$	June 1, 1990	12,725	15,092	15,035
	1974	"40"*	9 $\frac{1}{4}$	May 15, 1994	39,850	47,262	48,718
	1976	"41"°	9 $\frac{1}{2}$	March 15, 1983	45,000	53,370	55,361
	1978	— °	9	March 15, 1986	25,000	29,650	29,137
					<b>209,450</b>	<b>248,407</b>	<b>250,379</b>
Niagara Finance Company Limited	1975	"6" **	10 $\frac{1}{2}$	September 1, 1990	24,000	28,464	29,720

Holders of "38" notes have the right to prepayment on June 1, 1980 or 1985 (note 18(b)).  
Holders of "A" notes have the right to prepayment on December 15, 1980 or 1985.  
Holders of "D" notes have the right to prepayment on May 15, 1980. The holders of \$15,820,000 of these notes have indicated their intention to exercise their right to prepayment.  
Holders of "E" notes have the right to prepayment on March 1, 1980. The

holders of \$20,673,000 of these notes have indicated their intention to exercise their right to prepayment.  
Holders of "I" notes have the right to prepayment after July 1, 1980 on 30 days written notice. Prepayment shall be made by delivering to each holder a certificate of deposit of Continental Bank of Canada for an amount equal to the prepayment amount and with the same interest rate and maturity date as the Series "I" notes.

The parent company has guaranteed secured notes of Niagara Realty of Canada Limited as to principal, interest and redemption premiums, if any.  
\*These notes have purchase fund provisions (note 9).  
\*\*These notes have sinking fund provisions (note 9).  
°These notes have mandatory redemption provisions (note 9).  
## Bank prime rate less  $\frac{1}{2}$ %.



# Consolidated Details of Secured Notes

As at October 31, 1979  
Schedule A (continued)

Secured term notes (continued)	Year of maturity	Par value U.S. \$000's	1979 \$000's	1978 \$000's
<b>Notes issued at rates of interest varying from 8% to 10.625%</b>				
Payable in Canadian funds —				
Parent company	1979		206	37,671
	1980		132,707	13,037
	1981		20,221	5,221
	1982		577	577
	1983		10,369	10,369
	1984		5,000	5,000
			<u>169,080</u>	<u>71,875</u>
Niagara Finance Company Limited				
	1979		—	15
	1980		20	20
	1982		5	5
			<u>25</u>	<u>40</u>
Payable in U.S. funds				
Parent company	1979	—	—	2,098
	1980	1,800	2,135	2,098
	1981	1,800	2,135	2,098
	1982	35,000	41,510	40,792
	1983	10,000	11,860	11,655
		<u>48,600</u>	<u>57,640</u>	<u>58,741</u>
Niagara Finance Company Limited				
	1982	1,000	1,186	1,165
	1983	1,000	1,186	1,166
	1984	1,000	1,186	1,165
	1985	1,000	1,186	1,166
		<u>4,000</u>	<u>4,744</u>	<u>4,662</u>
			<u>1,220,306</u>	<u>1,132,137</u>
			<u>1,705,732</u>	<u>1,882,568</u>

All notes payable in U.S. funds have been  
converted at current exchange rates.



# Consolidated Details of Debentures

As at October 31, 1979  
Schedule B

	Year of issue	Rate %	Maturity date	Amount authorized and issued \$000's	<b>Outstanding 1979 \$000's</b>	Outstanding 1978 \$000's
<b>Debentures</b>						
Payable in Canadian funds — Parent company	1959	6 **	June 15, 1979	—	—	5,668
	1960	6 <sup>3</sup> / <sub>4</sub> **	February 1, 1980	10,000	<b>5,367</b>	6,036
	1961	5 <sup>3</sup> / <sub>4</sub> **	July 2, 1981	10,000	<b>6,769</b>	6,912
	1962	5 <sup>3</sup> / <sub>4</sub> **	February 15, 1982	10,000	<b>6,079</b>	6,169
	1965	6 <sup>1</sup> / <sub>2</sub> *	December 15, 1983	10,000	<b>5,661</b>	5,758
	1966	7 <sup>1</sup> / <sub>2</sub> *	December 15, 1986	10,000	<b>6,185</b>	6,390
	1970	9 <sup>1</sup> / <sub>2</sub> °	October 15, 1992	15,000	<b>10,296</b>	11,496
	1975	9 <sup>3</sup> / <sub>4</sub> °°	March 25, 1995	30,000	<b>29,782</b>	29,785
					<b>70,139</b>	78,214
Niagara Finance Company Limited	1972	8 **	April 17, 1992	15,000	<b>424</b>	435
	1974	11 <sup>1</sup> / <sub>2</sub> °°	October 15, 1994	15,000	<b>14,971</b>	15,000
					<b>85,534</b>	93,649

\*These debentures have sinking fund provisions (note 9).

\*\*These debentures have purchase fund provisions (note 9).

°These debentures have purchase fund provisions until October 15, 1982 and sinking fund provisions thereafter. Holders have the right to prepayment on October 15, 1982 (note 9).

°°These debentures have purchase fund provisions until March 25, 1983 and sinking fund provisions thereafter. Holders have the right to prepayment on March 25, 1983 (note 9).

°°°These debentures have purchase fund provisions and the holders have the right to prepayment on October 15, 1984 and 1989 (note 9).

## Subordinated Debentures

Payable in Canadian funds —  
Parent company

1966	6 <sup>3</sup> / <sub>4</sub> *	August 15, 1984	15,000	<b>9,461</b>	9,700
1967	7 *	November 1, 1985	10,000	<b>143</b>	150
1974	9 <sup>1</sup> / <sub>2</sub> **°	July 15, 1994	24,000	<b>23,279</b>	23,893
				<b>32,883</b>	33,743
				<b>118,417</b>	127,392

\*These debentures have sinking fund provisions (note 9).

\*\*Convertible debentures (note 12).

°These debentures have purchase fund provisions (note 9).



# Consolidated Details of Capital Stock

As at October 31, 1979  
Schedule C

	1979		1978	
	Shares	Amount \$000's	Shares	Amount \$000's
<b>Preferred Shares</b>				
Authorized and issued —				
4½% cumulative shares of \$100 each redeemable at \$101	100,000	10,000	100,000	10,000
Purchased for cancellation	65,284	6,529	62,669	6,267
	<u>34,716</u>	<u>3,471</u>	<u>37,331</u>	<u>3,733</u>
5¾% cumulative shares of \$25 each redeemable at \$25.75 declining to \$25.25 at May 15, 1981	600,000	15,000	600,000	15,000
Purchased for cancellation	131,933	3,298	110,233	2,756
	<u>468,067</u>	<u>11,702</u>	<u>489,767</u>	<u>12,244</u>
		<u>15,173</u>		<u>15,977</u>
<b>Common Shares</b>				
Authorized without nominal or par value	20,000,000		20,000,000	
Issued and fully paid —				
Beginning of period	13,573,943	51,457	13,573,643	51,451
Issued during the period —				
On conversion of 1974 9½% convertible subordinated debentures	22,800	456	300	6
End of period	<u>13,596,743</u>	<u>51,913</u>	<u>13,573,943</u>	<u>51,457</u>

65,284  
62,669  
2,615

26,151  
37,331

## Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of IAC Limited as at October 31, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the ten months then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1979 and the results of its operations and the changes in its financial position for the ten months then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Coopers & Lybrand*

Chartered Accountants

December 21, 1979



# Ten Year Operating and Statistical Summary

	1979*	1978	1977
<b>Assets and Liabilities (\$000's)</b>			
Total assets	3,725,154	3,141,637	2,536,484
Total receivables	3,359,246	3,007,933	2,481,134
Details:			
Sales financing — wholesale	436,554	395,694	349,162
— retail	1,009,395	893,701	701,639
Personal loans	145,683	171,532	178,086
Residential mortgages	386,563	319,374	258,936
Commercial loans	514,833	438,156	277,355
Leasing	846,495	771,662	710,753
Other receivables	19,723	17,814	5,203
Total debt	2,718,588	2,242,972	1,680,839
Total equity	248,962	254,660	250,947
Debt to equity ratio: times	10.92	8.81	6.70
<b>Operating Highlights (\$000's)</b>			
Gross income	259,248	263,221	239,667
Cost of borrowed money	198,878	169,110	130,163
General expenses	58,802	61,443	57,179
Earnings	8,323	22,592	34,528
Preferred dividends	700	872	900
Earnings applicable to common shares	7,623	21,720	33,628
Provision for doubtful receivables	9,577	11,206	11,159
Write-offs	7,180	10,093	9,932
% of average receivables	0.27**	0.37	0.42
Average cost of borrowed money %	10.1**	9.0	8.4
<b>Common Stock Facts</b>			
Earnings per share outstanding — daily average	\$0.56	\$1.60	\$2.48
Per cent return on average equity	3.9**	9.2	14.9
Dividends paid per share	\$0.97½	\$1.30	\$1.18
Number of shareholders	14,357	12,924	11,589
Number of shares outstanding			
— year end	13,596,743	13,573,943	13,573,643
— daily average	13,582,322	13,573,901	13,551,871
— owned in Canada — year end %	98.0	97.3	96.7
Book value per share	\$17.19	\$17.60	\$17.29

\*Ten months ended  
October 31, 1979

\*\*Annualized



1976	1975	1974	1973	1972	1971	1970
2,409,966	2,390,847	2,139,457	1,852,885	1,523,353	1,298,134	1,232,688
2,305,514	2,298,700	2,065,068	1,779,556	1,455,635	1,206,857	1,143,403
287,670	295,850	296,164	239,568	215,289	177,130	137,116
764,774	771,584	798,840	725,232	606,912	516,973	533,823
203,709	216,450	216,617	197,479	173,487	159,102	155,565
248,880	202,247	175,619	127,589	94,148	75,992	62,631
83,590	84,349	75,274	58,707	55,215	61,739	77,088
710,217	724,840	498,701	427,499	307,813	212,812	173,089
6,674	3,380	3,853	3,482	2,771	3,109	4,091
1,545,947	1,540,203	1,407,572	1,203,673	974,080	850,844	841,506
233,761	218,822	203,645	188,437	179,520	160,882	150,628
6.61	7.04	6.91	6.39	5.43	5.29	5.59
248,341	227,092	208,648	159,665	137,160	128,243	132,646
135,265	114,265	115,847	73,280	55,919	52,838	60,693
55,995	54,776	47,415	42,839	39,926	37,180	37,577
32,267	30,450	23,336	22,494	21,994	19,415	16,862
926	988	996	1,019	1,034	1,064	1,079
31,341	29,462	22,340	21,475	20,960	18,351	15,783
11,617	10,628	7,011	5,898	4,479	7,250	6,290
10,888	7,644	4,665	4,222	4,230	5,370	6,096
0.47	0.36	0.24	0.27	0.33	0.47	0.55
8.9	8.3	9.0	7.2	6.6	6.7	7.4
\$2.31	\$2.18	\$1.69	\$1.65	\$1.65	\$1.50	\$1.30
15.0	15.2	12.6	13.0	13.8	13.5	12.5
\$1.14	\$1.09	\$ .98	\$ .96	\$ .84	\$ .80	\$ .72½
11,307	11,435	11,853	12,510	12,672	12,802	13,502
13,544,033	13,541,883	13,487,698	13,006,293	12,988,399	12,306,118	12,131,720
13,543,285	13,513,111	13,204,861	12,995,747	12,694,400	12,207,770	12,085,813
96.5	96.3	96.3	95.7	96.2	95.2	94.7
\$16.03	\$14.84	\$13.73	\$13.05	\$12.35	\$11.50	\$10.78



**Statement of Revenue,  
Expenses and  
Undivided Profits**
**For the period from  
April 3, 1978 to  
October 31, 1979**

	Dollars
<b>Revenue:</b>	
Income from loans	23,240,000
Income from securities	4,531,000
Other operating revenue	50,000
Total revenue	27,821,000
<b>Expenses:</b>	
Interest on deposits	21,421,000
Salaries, pension contributions and other staff benefits	2,192,000
Property expenses, including depreciation	361,000
Other operating expenses, including provision of \$1,006,000 for losses on loans	4,788,000
Total expenses	28,762,000
<b>Balance of revenue (expenses)</b>	(941,000)
Recovery of income taxes relating thereto (note 4)	1,201,000
<b>Balance of revenue after recovery of income taxes</b>	260,000
Appropriation for losses	245,000
<b>Undivided profits at end of period</b>	15,000

**Statement of Accumulated  
Appropriations for Losses**
**For the period from  
April 3, 1978 to  
October 31, 1979**

	Dollars
Appropriation from current period's operations	245,000
Excess of provision for losses on loans (included in other operating expenses) over loss experience on loans for the period	869,000
Provision to reduce other securities to values not exceeding market	(500,000)
Income tax credit relating to appropriation from current period's operations (note 4)	239,000
Accumulated appropriations at end of period —	
General appropriation	1,353,000
Tax-paid appropriation	(500,000)
Total	853,000

**Statement of Rest Account**
**For the period from  
April 3, 1978 to  
October 31, 1979**

	Dollars
Capital contributed by shareholder during the period and balance at end of period	50,000,000



# Statement of Assets and Liabilities

As at October 31, 1979

		Dollars
<b>Assets</b>	Cash and due from banks	41,776,000
	Cheques and other items in transit, net	10,242,000
	<b>Total cash resources</b>	<b>52,018,000</b>
	Securities issued or guaranteed by Canada, at amortized value	72,142,000
	Other securities, not exceeding market value	65,092,000
	<b>Total securities</b>	<b>137,234,000</b>
	Day, call and short loans to investment dealers and brokers, secured	132,398,000
	Other loans, including mortgages, less provisions for losses	857,979,000
	<b>Total loans</b>	<b>990,377,000</b>
	Bank premises, at cost, less amounts written off	7,178,000
	Customers' liability under acceptances, guarantees and letters of credit, as per contra	428,000
	Other assets	10,756,000
		<b>1,197,991,000</b>
<b>Liabilities</b>	Deposits by Canada	256,000
	Deposits by provinces	5,386,000
	Deposits by banks	17,764,000
	Personal savings deposits payable after notice, in Canada, in Canadian currency	14,471,000
	Other deposits	957,954,000
	<b>Total deposits</b>	<b>995,831,000</b>
	Acceptances, guarantees and letters of credit	428,000
	Other liabilities	100,864,000
<b>Capital Funds</b>	Accumulated appropriations for losses	853,000
	Capital Stock:	
	Authorized — 10,000,000 shares, par value \$10 each; issued and fully paid — 5,000,000 shares	50,000,000
	Rest Account	50,000,000
	Undivided profits	15,000
	<b>Total capital funds</b>	<b>100,015,000</b>
		<b>1,197,991,000</b>
D. W. Maloney Vice Chairman and Chief Executive Officer		S. F. Melloy President



## Notes to Financial Statements

For the Period Ended  
October 31, 1979

### 1) Incorporation

The Bank was incorporated by an Act of Parliament on July 14, 1977. During the period reported on, the Bank issued 5 million common shares, having a par value of \$10 each to IAC Limited for \$50,000,000 cash. In addition, IAC made a contribution of \$50,000,000 to the Bank which amount is reflected in the Statement of Rest Account.

On June 15, 1978 the Bank obtained approval to commence business. It commenced banking operations on June 4, 1979. These financial statements include investment income of the Bank from April 3, 1978 and the results of its banking operations from June 4, 1979 to October 31, 1979.

### 2) Significant Accounting Policies

The Bank Act and the regulations thereunder prescribed by the Minister of Finance stipulate the form and content of the Bank's financial statements.

#### a) Provision for losses

A new bank, in its first year of operation, lacking five years of actual experience, is required to compute a provision for losses based on the five-year average loan loss experience ratio of the banking system for the previous year.

In addition to the provision for losses included in "Other operating expenses", an appropriation is made out of earnings at each year end to provide for losses not yet known which may be incurred on realization of existing loans together with possible losses on securities and other assets.

#### b) Translation of foreign currencies

Foreign currency items included in the Statements of Assets and Liabilities and Revenue and Expenses are translated into Canadian dollars at year-end rates of exchange or at the forward exchange contract rate if covered by a contract. Translation gains or losses on foreign currency positions held in the Bank's trading account are reflected in the Statement of Revenue and Expenses.

#### c) Bank premises

Bank premises are stated at original cost and depreciated by an annual charge to expense over their estimated useful lives. Depreciation is computed using the maximum rates allowed by the regulations of the Canadian Income Tax Act for claiming capital cost allowance. The diminishing balance method is used for equipment and the straight-line method for leasehold improvements.

### 3) Relationship with IAC Limited

The Bank is a wholly-owned subsidiary of IAC Limited. Pursuant to conditions set out in its incorporating statute, the Bank and IAC are required to amalgamate on or before July 14, 1987.

The Act incorporating the Bank restricts the activities of IAC and its subsidiaries, other than the Bank, to activities which are not considered to be eligible banking activities.

The Bank, IAC and other subsidiaries of IAC are parties to several agreements affecting their activities, the most significant of which relate to the following:

#### a) Cost sharing

The agreement provides for the allocation of certain common expenses among the various parties. The Bank's share of such expenses is included in the Statement of Revenue and Expenses.

#### b) Guarantee by IAC Limited

All indebtedness of the Bank is and will be, until the amalgamation of the Bank and IAC Limited, unconditionally guaranteed by IAC.

#### c) Pension Plan

During the period, employees of IAC became employees of the Bank and accordingly, it was necessary to transfer the IAC pension fund to the Bank. The Bank's policy is to fund pension cost as accrued and based on actuarial valuations done every three years. As at December 31, 1977, the date of the last actuarial valuation of the fund, the past service liability was fully funded.

### 4) Recovery of Income Taxes

The recovery of income taxes, \$1,201,000 reported in the Statement of Revenue and Expenses and \$239,000 included in the Statement of Accumulated Appropriations for Losses will result from the application of the current year's loss to reduce future years' income subject to tax. The recovery relating to the balance of expenses is greater than the amount obtained by applying statutory tax rates because of the inclusion in revenue of non-taxable dividends from Canadian corporations.

## Auditors' Report to the Shareholder of Continental Bank of Canada

We have examined the statement of assets and liabilities of Continental Bank of Canada as at October 31, 1979 and the statements of revenue, expenses and undivided profits, accumulated appropriations for losses and rest account for the period from April 3, 1978 to October 31, 1979. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Bank as at October 31, 1979 and its revenue, expenses and undivided profits and accumulated appropriations for losses for the period then ended.

J. E. Ford, F.C.A.  
of the firm of Clarkson Gordon

J. A. McClelland, F.C.A.  
of the firm of Coopers & Lybrand

Auditors  
Toronto, December 21, 1979



# Directors and Officers

## Directors

*Joseph S. Land Toronto, Ont. Chairman of the Board	*Adam H. Zimmerman, F.C.A. Toronto, Ont. Executive Vice-President, Noranda Mines Limited	Geno F. Francolini, F.C.A. Tillsonburg, Ont. Vice-Chairman of the Board & Chief Executive Officer, Livingston Industries Limited
*Douglas W. Maloney Toronto, Ont. Vice-Chairman of the Board & Chief Executive Officer	Allan P. Bolin Toronto, Ont. Senior Vice-President & Senior General Manager	Cal N. Moisan Montreal, Que. President & General Manager, Standard Paper Box Ltd.
*Stanley F. Melloy Toronto, Ont. President	Peter F. Bronfman Toronto, Ont. President, Edper Investments Ltd.	Edmond G. Odette Toronto, Ont. President, Eastern Construction Company Limited
*Ronald L. Cliff, C.A. Vancouver, B.C. Chairman, Inland Natural Gas Co. Ltd.	Stanley D. Clarke Montreal, Que. President, Clarke Transport Canada Inc.	Struan Robertson Halifax, N.S. President & Chief Executive Officer, Maritime Telegraph and Telephone Company Ltd.
*Harold Corrigan, C.A. Toronto, Ont. President, Alcan Canada Products Limited	George L. Crawford, Q.C. Calgary, Alta. Associate, McLaws & Company	Jacques Tétrault, Q.C. Montreal, Que. Partner, Courtois, Clarkson, Parsons & Tétrault
*John A. Rhind Toronto, Ont. President, Confederation Life Insurance Company	Pierre Des Marais II Montreal, Que. President, Pierre Des Marais Inc.	
*L. Edmond Ricard Montreal, Que. President & Chief Operating Officer, Imasco Limited	William A. Dimma Toronto, Ont. President & Chief Operating Officer A. E. LePage Limited	
*C. Harry Rosier Toronto, Ont. Vice-Chairman of the Board, Abitibi-Price Inc.	J. Peter Foster Toronto, Ont. President, Hugh Russel Inc.	

\*Member of the Executive Committee  
of the Board as at October 31, 1979

## Officers

J. S. Land Chairman of the Board	D. W. Maloney Vice-Chairman of the Board & Chief Executive Officer	S. F. Melloy President
Senior Vice-Presidents	A. P. Bolin	L. R. Woodall
Vice-Presidents	M. F. Harris R. A. Hémond I. A. Henderson S.S. Ilaqua R. K. Jackson N. V. Keyes A. L. Lathrop	D. H. Lyons E. W. McCracken D. A. Rattee W. Smuk J. J. Smyth W. J. Van Wyck K. E. Woodall
J. P. Barratt C. F. Chasney W. P. Davidson N. A. Gow L. G. Gravel	C. R. Stewart	
Secretary		
Comptroller	J. J. Tors	



## Corporate Information

### Bank Credit Lines

#### Established with the following Canadian banks:

The Royal Bank of Canada  
Bank of Montreal  
Canadian Imperial Bank of Commerce  
The Toronto Dominion Bank  
The Bank of Nova Scotia  
The National Bank of Canada  
The Mercantile Bank of Canada  
Bank of British Columbia

#### Established directly or through their affiliates with the following U.S. banks:

Morgan Guaranty Trust Company of New York  
Bank of America  
Bankers Trust Company  
Chemical Bank  
Citibank, NA  
Continental Illinois National Bank and Trust Company of Chicago

Crocker National Bank  
French American Banking Corporation  
Harris Trust and Savings Bank  
Irving Trust Company  
Manufacturers Hanover Trust Company  
Marine Midland Bank – Western  
Mellon Bank NA  
National Bank of Detroit  
National Bank of North America  
Schroder Trust Company  
Seattle-First National Bank  
Security Pacific National Bank  
The Bank of New York  
The Chase Manhattan Bank NA  
The First National Bank of Boston  
The First National Bank of Chicago  
The Northern Trust Company  
United California Bank  
Wells Fargo Bank NA

### Transfer Agents

#### Common Stock

Montreal Trust Company  
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver  
The Bank of New York  
New York

#### Preferred Stock

The Royal Trust Company  
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

### Registrars

#### Common Stock

Canada Permanent Trust Company  
Montreal and Toronto  
The Royal Trust Company  
Winnipeg, Regina, Calgary and Vancouver  
The Bank of New York  
New York

#### Preferred Stock \$100 Par Value

Montreal Trust Company  
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

#### Preferred Stock \$25 Par Value

Guaranty Trust Company of Canada  
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

### Auditors

Coopers & Lybrand  
Toronto, Chartered Accountants

### Stock Listings

Montreal Stock Exchange  
Toronto Stock Exchange

Vancouver Stock Exchange –  
Common Stock only



Cover Photograph:

*The Night Skyline of Toronto*

Visitors to the city are welcomed by our large Continental Bank billboard which carries news of many community events.

*Printed in Canada*



